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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000810

SIPDIS

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DMCCLOUD, ESCOTT

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TAGS: [EAID](#) [EINV](#) [EAIR](#) [EFIN](#) [ELAB](#) [LE](#)
SUBJECT: LEBANON: TELECOM BENCHMARK VITAL FOR GOL REFORM
PROGRAM

REF: A. BEIRUT 670
[1](#)B. BEIRUT 686

Classified By: CDA Michele Sison for reasons 1.4 (b) and (d)

SUMMARY:

[1](#)1. (C) Both Telecommunications Regulatory Authority Chairman Dr. Kamal Shehadi, and Ziad Hayek, Chairman of the Higher Council for Privatization urged the USG to keep the Paris III benchmark related to the sale of the mobile telecom licenses in order to keep pressure on the GOL to achieve promised reforms. Both believe that with "political will" the sale could be completed before year end 2008. The International Monetary Fund will probably not use this benchmark for its next Emergency Post-Conflict Assistance program, because it will be looking at longer-term goals; however this benchmark remains vital to both economic and political success in Lebanon. This would not/not affect the U.S. ability to tie the second remaining benchmark to the upgrades of the Kleyate Airport, which Post strongly supports. End summary.

TRA AND HCP AGREE: DON'T CHANGE THE BENCHMARK

[1](#)2. (C) In separate meetings on May 29 with Dr. Kamal Shehadi, Chairman of the Telecommunications Regulatory Authority (TRA) and Dr. Ziad Hayek, Chairman of the Higher Council for Privatization (HCP) both urged the USG to remain committed to the original benchmark for \$75 million in U.S. Paris III pledges. This benchmark is the sale of the mobile telecom licenses, which was originally scheduled for completion in May 2008. Both argued coherently that this step in the GOL's reform program is still critical and achievable. "If you believe this is necessary, why would you change the benchmark?" asked Hayek. He argued that the last remaining benchmark, imposition of the gas excise tax, was different in that it was a victim of external circumstances -- the rise in oil prices -- and not a key step in the promised reform program. However, the need to move ahead with telecom privatization is still critical for economic reform.

TELECOM AUCTION CAN BE COMPLETELY QUICKLY

[1](#)3. (C) Both men pointed out that the work is complete for the telecom auction, and if the GOL makes the decision to

move ahead, it will only take a few weeks to update the auction process. Both agreed further that the only apparent obstacle remaining is Speaker Nabih Berri's original objections to moving ahead without new legislation. On that point Shehadi has already requested a meeting with Berri to brief him on proposed alternatives. Hayek said that possible legislation is drafted and could be passed quickly. What is required, he said, is the "political will" to move forward, and that will only become apparent with the unveiling of the new cabinet, and in particular, the new minister of telecommunications.

IMF GOALS NO LONGER MATCH USG TIMING

14. (C) Recent discussions with the International Monetary Fund (IMF) Resident Representative Edward Gardner indicate that the IMF is focusing on longer-term benchmarks for its potential second Emergency Post-Conflict Assistance (EPCA) program, since it is not sure if it will proceed before the second half of 2008. The IMF previously excused the GOL from the two last benchmarks, while praising the GOL for success in the reform program so far. It is unlikely that the IMF will re-institute this benchmark into any new program. However, the USG should agree on benchmarks for the remaining \$125 million pledged at Paris III sooner rather than later. (Note: Retaining this benchmark would not/not affect U.S. ability to consider the proposed upgrade of the northern Kleyate Airport for the second, \$50 million benchmark, which Post strongly supports, refuels. End note.)

COMMENT

BEIRUT 00000810 002 OF 002

15. (C) The sale of telecom licenses is critical for economic reform in Lebanon, and remains of vital interest to the private sector, as well as potential U.S. investors and businesses. To continue on with the sale would also signal a political victory for the Siniora government, who previously planned to move ahead on this. For the USG to drop this and possibly substitute some other measurement would require time, and would also signal a change in USG direction, which is neither accurate nor warranted. Any adjustment in the timing, for example completion by November, rather than the original May 2008, seems arguable, given the recently-resolved political crises. It would seem to be an easier argument to make internally than developing a completely new objective. It would also give the TRA and the HCP support in continuing their critical reform agenda. End comment.

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